



Senator
Byron L. Dorgan
Chairman

DEMOCRATIC POLICY COMMITTEE **Special Report**

March 22, 2002

DPC Staff Contact: Jeff Mitchell (202) 224-3232
DPC Press Contacts: Ranit Schmelzer (202) 224-2939
Barry Piatt (202) 224-2551

The Fortune 50: Company Stock as a Percentage of 401(k) Plan Assets

This DPC Special Report examines the percentage of 401(k) plan assets invested in company stock among Fortune 50 companies: the report finds that on average, 40 percent of these corporations' 401(k) plan assets are invested in company stock.

Introduction

The loss of the life savings of thousands of Enron employees has focused attention on the need for asset diversification in 401(k) plans.

401(k) plans represent an important part of the retirement savings of millions of Americans. According to one estimate, there were 327,364 such plans with 42.1 million participants in 2001. (*Employee Benefit Research Institute*, January 28, 2002)

Among defined contribution plans (which include 401(k) plans), 49 percent require employer contributions to be invested in company stock. (*Employee Benefit Research Institute*, January 28, 2002)

An October 2001 *Journal of Finance* study found that when employers' contributions are automatically directed to company stock, most employees interpret the allocation of the employers' contributions as implicit investment advice.

In 1999, *John Hancock Financial Services* reported that a majority of employees believe holding their own company's stock in their 401(k) plans is safer than having a diversified portfolio.

The DPC Study

Diversification is a cornerstone of effective retirement savings management. This DPC study examines the extent to which 401(k) plan assets at Fortune 50 corporations are invested in their own company stock. The results of the study¹, which are compiled in the table at Appendix A, reveal that:

- On average, 40 percent of Fortune 50 corporations' 401(k) plan assets were invested in their own company stock;
- 55 percent of the corporations' plan assets were at least 30 percent invested in company stock;
- 38 percent of the corporations' plan assets were at least 50 percent invested in company stock;
- 17 percent of the corporations' plan assets were at least 70 percent invested in company stock; and
- 30 percent of the plan assets had a higher concentration of company stock than Enron did in 2001.

The DC Plan Investing Study

In December 2001, *DC Plan Investing* issued a report that examined 401(k) plan investments in company stock for 219 large corporations (21 of the Fortune 50 companies were not included in the *DC Plan Investing Study*).

The report found that many major corporations' 401(k) plan assets were heavily invested in company stock, including the plans of Proctor & Gamble, Sherwin-Williams, and Abbott Laboratories, all of which had at least 90 percent of their plan assets invested in company stock (see the table from the study at Appendix B).

The report also found that 20 of the corporations surveyed had an even higher percentage of company stock in their 401(k) plan assets than Enron (which had 57.7 percent of its plan's assets invested in Enron stock).

Conclusion

Like the *DC Plan Investing Study*, this DPC report shows that a significant percentage of Fortune 50 companies' 401(k) plan assets are invested in their own company stock. This lack of diversification could prove devastating for tens of thousands of employees who rely on the stability of their 401(k) plans for a secure retirement.

¹ The DPC study reports on 47 of the Fortune 50 companies. Results are not available for State Farm Insurance Company, TIAA-CREF, and Goldman Sachs.

State Farm Insurance Company and TIAA-CREF are not publicly traded companies. Goldman Sachs does not yet have data available because the company went public in 1999. In a telephone interview, Goldman Sachs estimated that less than 5 percent of its 401(k) plans' assets were invested in company stock.

The Fortune 50: Company Stock as a Percentage of 401(k) Plan Assets

Exxon Mobil	60.0%
Wal-Mart	14.1%
General Motors	19.2%
Ford Motor	57.0%
General Electric	77.4%
Citigroup	48.0%
Enron	57.7%
IBM	15.3%
AT&T	28.0%
Verizon Communications	45.8%
Philip Morris	16.0%
J.P. Morgan Chase	20.0%
Bank of America Corp	37.0%
SBC Communications	41.0%
Boeing	19.0%
Texaco	46.0%
Duke Energy	71.3%
Kroger	65.3%
Hewlett-Packard	23.8%
Chevron	70.0%
State Farm Insurance Cos.	NA
American International Group	17.4%
Home Depot	72.0%
Morgan Stanley Dean Witter	77.3%
Merrill Lynch	64.6%
Fannie Mae	25.0%
Compaq Computer	19.3%
Lucent Technologies	30.9%
Sears Roebuck	25.0%
Merck	52.7%
Procter & Gamble	94.7%
Worldcom	0.3%
TIAA-CREF	NA
Motorola	15.2%
McKesson HBOC	72.0%
KMART	12.2%
Target	64.0%
Albertson's	71.4%
USX	17.0%
Berkshire Hathaway	64.1%
Intel	13.3%
Goldman Sachs Group	NA
J.C. Penney	32.8%
Conoco	2.0%
Costco Wholesale	60.1%
Safeway	42.0%
Metlife	1.0%
Dell Computer	53.6%
Ingram Micro	10.4%
Freddie Mac	20.1%

Sources: *Pensions & Investments*, January 22, 2001; *DC Plan Investing*, December 12, 2001; *Nelson's Directory of Plan Sponsors*, 2000; and DPC from Securities and Exchange Commission filings, December 31, 2000.

Note: State Farm Insurance Company and TIAA-CREF are not publicly traded companies. Goldman Sachs does not yet have data available because the company went public in 1999. In a telephone interview, Goldman Sachs estimated that less than 5 percent of its 401(k) plans' assets were invested in company stock.

Company Stock as a Percentage of 401(k) Plan Assets
DC Plan Investing Survey

Proctor & Gamble	94.7%
Sherwin–Williams	91.6%
Abbott Laboratories	90.2%
Pfizer	85.5%
BB&T	81.7%
Anheuser–Busch	81.6%
Coca–Cola	81.5%
General Electric	77.4%
Texas Instruments	75.7%
William Wrigley, Jr.	75.6%
Williams	75.0%
McDonald’s	74.3%
Home Depot	72.0%
McKesson HBOC	72.0%
Marsh & McLennan	72.0%
Duke Energy	71.3%
Textron	70.0%
Kroger	65.3%
Target	64.0%
Household International	63.7%

Source: DC Plan Investing, December 12, 2001.